

Message Text

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ACTION ARA-10

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R 151234Z DEC 76
FM AMEMBASSY QUITO
TO SECSTATE WASHDC 2522
INFO AMCONSUL GUAYAQUIL
USDAO WASHDC

C O N F I D E N T I A L QUITO 8695

DEPT. PLEASE PASS EXIMBANK

E.O. 11652: GDS
TAGS: EFIN EC
SUBJ: LA PREVISORA BANK OF CREDIT

REF: QUITO 8696

1. EMBASSY RECOMMENDS THAT EXIMBANK POSTPONE RESUMPTION
OF ACTIVITIES WITH LA PREVISORA FOR THE FOLLOWING REASONS:

A) EMBASSY HAS LEARNED FROM CONFIDENTIAL SOURCE IN
CENTRAL BANK THAT PREVISORA PRESIDENT YCAZA HAS ALSO
DIVERTED BANK FUNDS TO SOME TWENTY OTHER COMPANIES (IN
ADDITION TO FUNDS TO PURCHASE ANDES AIRLINES). REPAYMENT
OF THESE LOANS HAS APPARENTLY BEEN RENEGOTIATED SEVERAL TIMES.

B) THE LOANS WHICH THE GOVERNMENT HAS MADE TO
SUPPORT LA PREVISORA APPEAR DISTURBINGLY LARGE IN RELATIONS
TO THE BANK'S ASSETS. GOE FUNDS CARRY 8 PERCENT INTEREST AND
ARE AVAILABLE
TO THE BANK FOR RELENDING.

C) CENTRAL BANK SOURCE REPORTS AUTHORITATIVELY
THAT PROMINENT GUAYAQUIL FIRMS ARE VOLUNTARILY SUPPORTING
LA PREVISORA; NEVERTHELESS, THERE ARE UNCONFIRMED RUMORS
THAT OTHER LOCAL BANKS HAVE ALSO BEEN ASKED TO SUPPORT
LA PREVISORA.

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D) PREVISORA HAS CONSISTENTLY AFALLEN BELOW ITS LEGAL RESERVE REQUIREMENTS; RESERVE REQUIREMENTS HAVE BEEN LOWERED BY THE GOE SEVERAL TIMES THIS YEAR MERELY TO ACCOMMODATE PREVISORA AND SEVERAL OTHER LOCAL BANKS.

E) THERE WOULD BE NO CONSTRAINT FOR US. EXPORTS IF EXIMBANK SHOULD POSTPONE RESUMPTION OF ACTIVITIES WITH PREVISORA, SINCE THERE ARE MANY OTHER BANKS CAPABLE OF FINANCING US. EXPORTS TO ECUADOR.

F) ALTHOUGH WE ARE CONFINCED THAT THE PRESENT MILITARY GOVERNMENTS WILL NOT ALLOW PREVISORA TO FAIL OR SUFFER SERIOUS FINANCIAL LOSSES, WE ARE CONCERNED THAT THE POLITICAL AND FINANCIAL INVOLVEMENT OF SUPREME COUNCIL MEMBER GENERAL DURAN WITH PREVISORA PRESIDENT YCAZA COULD MADE THE BANK A SITTING DUCK FOR RETALIATION (OR NEGLECT) BY SOME FUTURE GOVERNMENT, ESPECIALLY IF A FUTURE GOVERNMENT SHOULD MAKE A SERIOUS EFFORT TO CURB INFLATION.

2. ALL IN ALL, WE BELIEVE THAT PREVISORA IS NOW IN UNSUITABLE CONTACT FOR EXIMBANK BECAUSE OF ITS EVIDENT INVOLVEMENT IN LOCAL POLITICS AND IN OTHER QUESTIONABLE ENTERPRISES.

3. IF EXIMBANK SHOULD DECIDE AGAINST RESUMPTION OF ACTIVITIES WITH LA PREVISORA, EMBASSY SUGGESTS THIS DECISION BE REVIEWED WITHIN A FEW MONTHS. GOVERNMENT LOANS AND SUPERVISION BY THE SUPERINTENDENCY OF BANKS MAY BE SUFFICIENT TO PULL LA PREVISORA OUT OF ITS CURRENT DIFFICULTIES, AND THE GOE IS APPARENTLY CONSIDERING REVISION OF ITS BANKING LAWS ALLOWING REPLACEMENT OF BANK MANAGEMENT UNDER CERTAIN CONDITIONS.
BLOOMFIELD

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